

FARM FINANCE: A SITUATION REPORT

Farmers And Lenders

BY

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DEBT/ASSET RATIO --- CASHFLOW STATUS
U.S. FARMS --- JANUARY, 1985

CASHFLOW/ FARM INCOME	DEBT/ASSET RATIO		
	<.4	.4 - 1.0	> 1.0
(% OF FARMS)			
POSITIVE			
MORE THAN \$500,000	1	*	*
\$40,000 - \$500,000	17	3	1
LESS THAN \$40,000	26	2	*
ALL	43	6	1
NEGATIVE			
MORE THAN \$500,000	*	*	*
\$40,000 - \$500,000	8	6	1
LESS THAN \$40,000	29	4	1
ALL	38	10	2
ALL FARMS	81	16	3

* LESS THAN 1

UNLESS OTHERWISE NOTED DATA IN THIS AND OTHER TABLES ARE FROM ERS PUBLICATIONS "AIB-495" AND "1986 AG. FINANCE OUTLOOK."

DEBT/ASSET RATIO --- CASHFLOW STATUS
U.S. FARMS --- JANUARY, 1985

CASHFLOW/ FARM INCOME	DEBT/ASSET RATIO		
	<.4	.4 - 1.0	> 1.0
(% OF DEBT)			
POSITIVE			
MORE THAN \$500,000	3	3	1
\$40,000 - \$500,000	13	9	1
LESS THAN \$40,000	3	2	*
ALL	20	14	2
NEGATIVE			
MORE THAN \$500,000	2	5	3
\$40,000 - \$500,000	12	25	6
LESS THAN \$40,000	5	5	2
ALL	18	35	11
ALL FARMS	38	49	13

* LESS THAN 1

DISTRIBUTION OF COMMERCIAL FARMS*
BY DEBT/ASSET RATIO
U.S. - JANUARY 1985

GROSS INCOME	DEBT/ASSET RATIO			ALL
	<.4	.4 - .7	>.7	
(PERCENT OF FARMS)				
\$500,000 or MORE	3	1	1	5
\$250,000 - 499,999	7	3	2	12
\$100,000 - 249,999	24	7	4	35
\$40,000 - 99,999	35	8	5	48
ALL	69	19	12	100

*634,100 FARMS

DISTRIBUTION OF COMMERCIAL FARMS
WITH NEGATIVE CASHFLOWS*
BY DEBT/ASSET RATIO
U.S. - JANUARY 1985

GROSS INCOME	DEBT/ASSET RATIO			ALL
	<.4	.4 - .7	>.7	
(PERCENT OF FARMS)				
\$500,000 or MORE	2	1	1	4
\$250,000 - 499,999	4	3	2	9
\$100,000 - 249,999	16	10	7	33
\$40,000 - 99,999	31	13	12	56
ALL	53	27	22	100**

*276,100 FARMS

** ROUNDING ERROR

DISTRIBUTION OF ALL FARM DEBT*
U.S. - JANUARY 1985

GROSS INCOME	DEBT/ASSET RATIO			ALL
	<.4	.4 - .7	>.7	
(PERCENT OF DEBT)				
\$500,000 or MORE	5	5	6	16
\$250,000 - 499,999	7	6	5	18
\$100,000 - 249,999	11	11	8	30
\$40,000 - 99,999	7	6	5	18
COMMERCIAL SUBTOTAL	30	28	24	82
LESS THAN \$40,000	8	6	4	18
ALL FARMS	38	34	28	100

DISTRIBUTION OF COMMERCIAL FARM
OPERATORS, ASSETS, AND DEBT
BY FINANCIAL POSITION
JANUARY 1985

OPERATOR FINANCIAL POSITION	PERCENT OF		
	OPERATORS	ASSETS	DEBT
GOOD	70	65	51
FAIR	13	18	16
STRESSED	7	7	10
VULNERABLE	10	10	23
TOTAL	100	100	100

SOURCE: MELICHAR - HOUSE STATEMENT 10/23/85

DISTRIBUTION OF DEBT ON COMMERCIAL FARMS
BY FINANCIAL POSITION
JANUARY 1985

OPERATOR FINANCIAL POSITION	PERCENT OF DEBT OWED TO		
	BANKS	FCS	FmHA
GOOD	47	53	39
FAIR	15	15	18
STRESSED	13	12	12
VULNERABLE	25	20	31
TOTAL	100	100	100

SOURCE: MELICHAR - HOUSE STATEMENT 10/23/85

FARM BUSINESS FINANCIAL HEALTH
Development of Ordinal Indicator

Measure ----- Variable ----- Criterion	Liquidity ----- Adjusted Cash ----- $\geq 0 (+)$ $< 0 (-)$	Solvency ----- Debt-to-Asset Ratio ----- $\leq .5 (+)$ $> .5 (-)$	Profitability ----- Rate of Return ----- $\geq 4% (+)$ $< 4% (-)$	Level of Ordinal Indicator
Alternative Combinations of Measures	+	+	+	0 (best)
	+	-	+	1
	-	+	+	2
	-	-	+	3
	+	+	-	4
	+	-	-	5
	-	+	-	6
	-	-	-	7 (worst)

+ satisfactory
- Unsatisfactory

Source: Allan Lines

FARM BUSINESS FINANCIAL HEALTH
U.S. FARMS - 1984

Financial Health Category	Percent of All Farms
0 (best)	15
1	3
2	1
3	2
4	9
5	-
6	62
7 (worst)	9

Source: Allan Lines

FARM BUSINESS FINANCIAL HEALTH
U.S. FARMS - 1984

Financial Health Category	Percent of All Farms	^{\$} ≥ 40K	^{\$} ≥ 100K	^{\$} ≥ 250K
0 (best)	15	40	47	50
1	3	-----		
2	1	-----		
3	2	19	18	20
4	9	-----		
5	-	-----		
6	62	-----		
7 (worst)	9	41	35	30

-10-(a)

Source: Allan Lines

DELINQUENT FARM PRODUCTION LOANS
COMMERCIAL BANKS

DELINQUENCY CLASSIFICATION	JUNE		
	1983	1984	1985
(% OF TOTAL)			
PERFORMING			
PAST DUE 30 - 89 DAYS	1.3	1.5	1.7
NON-PERFORMING			
PAST DUE 90 DAYS OR MORE	3.5	5.1	7.3
TOTAL	4.8	6.6	9.0

NUMBER OF POTENTIALLY VULNERABLE*
COMMERCIAL BANKS

DATE	AG BANKS	NON-AG BANKS	TOTAL
JUNE '83	96	323	419
DEC. '83	133	320	453
JUNE '84	195	276	471
DEC. '84	239	375	614
JUNE '85	302	387	689
SEPT. '85	309	410	719

* FEDERAL RESERVE DEFINITION:

DELINQUENT LOANS EXCEED EQUITY CAPITAL PLUS LOAN-LOSS RESERVES

NUMBER OF PROBLEM*
COMMERCIAL BANKS

DATE	AG BANKS	NON-AG BANKS	TOTAL
JUNE '83	106	375	481
DEC. '83	146	457	603
JUNE '84	231	440	671
DEC. '84	288	512	800
JUNE '85	334	606	940
DEC. '85	437	662	1098

* FDIC DEFINITION:

C -- CAPITAL ADEQUACY
A -- ASSET QUALITY
M -- MANAGEMENT QUALITY
E -- EARNINGS
L -- LIQUIDITY

NUMBER OF BANK FAILURES
COMMERCIAL AG BANKS

REGION	1983	1984	1985*	TOTAL
NORTHEAST	0	0	0	0
LAKE STATES	0	2	5	7
CORN BELT	2	6	14	22
NORTHERN PLAINS	2	10	18	30
APPLACHIA	0	2	1	3
SOUTHEAST	1	1	0	2
DELTA	1	2	0	3
SOUTHERN PLAINS	0	5	8	13
MOUNTAIN	1	3	4	8
PACIFIC	0	0	3	3
TOTAL	7	31	53**	91

* AS OF 10/11/85

** 70 AS OF 12/30/85

NET LOAN LOSSES (CHARGE-OFFS)
FARM CREDIT SYSTEM

YEAR	PCA	FLB
(MILLION \$)		
1980	22	.1
1981	42	1
1982	159	2
1983	237	10
1984	286	90
1985 (9/30)	342	279

PROBLEM LOANS
FARM CREDIT SYSTEM

YEAR	PCA	FLB
(MILLION \$)		
1980	80	85
1981	147	178
1982	1,301	510
1983	2,051	839
1984	2,096	3,985
1985 (9/30)	2,466	6,076

ACQUIRED PROPERTIES
FARM CREDIT SYSTEM

YEAR	PCA	FLB
(MILLION \$)		
1980	29	5
1981	32	8
1982	92	30
1983	149	116
1984	182	314
1985 (9/30)	242	675

FARM MORTGAGE DELINQUENCIES
LIFE INSURANCE COMPANIES

YEAR JUNE 30	PERCENT OF LOAN		NUMBER OF COMPANIES
	NUMBERS	VOLUME	
1980	.8	2.8	77
1981	1.0	4.0	77
1982	1.7	6.5	78
1983	3.0	9.8	75
1984	3.9	10.4	75
1985	6.3	15.0	74

FARM MORTGAGES IN FORECLOSURE
LIFE INSURANCE COMPANIES

YEAR JUNE 30	PERCENT OF LOAN		NUMBER OF COMPANIES
	NUMBERS	VOLUME	
1980	.1	.6	77
1981	.3	1.2	77
1982	.4	1.6	78
1983	.9	2.6	75
1984	1.1	3.0	75
1985	6.3	6.0	74

FARM MORTGAGE LOANS FORECLOSED
LIFE INSURANCE COMPANIES

YEAR	NUMBERS	MILLION \$
1980	26	18
1981	47	56
1982	167	170
1983	306	347
1984	475	289
1985 (6/30)	425	241

FARM MORTGAGE LOANS FORECLOSED
LIFE INSURANCE COMPANIES

YEAR	NUMBERS	MILLION \$
1971	94	24
1972	75	13
1973	53	12
1974	25	4
1975	32	24
1976	35	24
1977	17	5
1978	26	17
1979	24	19
1980	26	18
1981	47	56
1982	167	170
1983	306	247
1984	475	289
1985 (6/30)	425	241

FARM PROGRAM DELINQUENCIES
FmHA

DATE JUNE 30	NUMBER ACTIVE LOANS		
	TOTAL NO.	DELINQUENT	
		NUMBER	PERCENT
	(1,000)	(1,000)	
1980	372	62	17
1981	423	85	20
1982	434	120	28
1983	437	146	34
1984	447	158	35
1985	456	165	36

FARM PROGRAM DELINQUENCIES
FmHA

DATE JUNE 30	PRINCIPAL OUTSTANDING		
	TOTAL AMOUNT	DELINQUENT AMOUNT	PERCENT
(BILLION \$)			
1980	18	1	5
1981	23	2	7
1982	24	3	12
1983	24	4	17
1984	25	5	21
1985	28	6	23

AGE OF FARM LOAN DELINQUENCIES*
FmHA

YEARS DELINQUENT	AMOUNT (MILLION \$)
LESS THAN 1	422
1	521
2	689
3	1,322
4 OR MORE	2,831
TOTAL	5,785

*AS OF 6/30/85

FARMER PROGRAM PROPERTY INVENTORY
FmHA 9/85

REGION	ACRES (1000)	VALUE (MILLION \$)
NORTHEAST	43	30
APPLACHIA	70	59
SOUTHEAST	68	45
DELTA	97	83
CORN BELT	187	141
LAKE STATES	91	68
NORTHERN PLAINS	182	71
SOUTHERN PLAINS	66	33
MOUNTAIN	168	68
PACIFIC	52	64
TOTAL	1,015	664

FARM LOAN PORTFOLIO QUALITY
DISTRIBUTION OF BORROWERS AND DEBT
FmHA, FCS, COMMERCIAL BANKS
12/31/84

FINANCIAL STRESS CATEGORY	FmHA	CFS	BANKS
(PERCENT)			
D/A RATIO OVER .7			
FARM BORROWERS	27	13	12
LENDER DEBT	45	25	27
NEGATIVE CASH FLOW			
FARM BORROWERS	67	54	53
LENDER DEBT	77	65	65
BOTH NEGATIVE CASHFLOW AND D/A RATIO OVER .7			
FARM BORROWERS	23	10	9
LENDER DEBT	40	21	22

FARM LOAN WRITE-OFFS
SUMMARY

LENDER	1984	1985
(MILLION \$)		
BANKS	850	1,000
PCA	286	450*
FLBA	90	370*
FmHA	55	48
LIFE INS.	145*	241*
TOTAL	1,426	2,109

* ESTIMATED.

DOES NOT INCLUDE DEALERS, SUPPLIERS, PERSONAL, ETC.

Economist says: crisis has bottomed

SARGENT--University of Nebraska Extension Economist Roy Frederick feels that the agriculture economic crisis of the '80s has bottomed out. "I think we're at the bottom of the trough," Frederick said Tuesday.

He explained the current struggle as "fighting the over-enthusiasm of the '70s."

Frederick was one of the speakers at the "Ag Situation 1986" farm financial management workshop sponsored by area county Extension Services here.

The economist offered advice and forecasts on "Nebraska Agriculture to 1990-- Where are we, how did we get here and what happens next?"

Frederick advocates inflation as a means of improving the economic situation. "It might help to get land prices up," he said. He qualified his remark by admitting that he's asking for a risky situation. Frederick's rise in inflation extends from the current 3 to 4 percent to a rate of 5 or 6 percent.

The economist cited an increased generation of income as one of the solutions to the farmers' problems. He also discussed the effects of lowering interest rates, the ag export situation and the 1985 Farm Bill.

Frederick blamed high interest

rates on the absorption of loan losses by lending institutions. He predicts that better days are ahead with rate reductions in the next year or two.

He also believes the value of the dollar will be favorable in late 1986 and early '87. "The last half of the decade will be better than the first half."

Frederick also blamed the low prices on the loss of the export dollar.

In review of the Farm Bill, Frederick said, "As we look to 1986 and compare with 1987, the income generated will be lower."

He also said the Farm Bill will only provide a safety net. "It can't provide an economic rejuvenation. It's just not going to do it." He also said, "But the '85 Farm Bill is as good as we can hope for."

Frederick said that making predictions was a risky situation and counseled that "entirely too much prediction of the future is based on the current economic situation."

During his talk Tuesday morning, Frederick also said that farmers are overproducing. "We don't pay nearly enough attention to the demand side of the market

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Economy

as necessary."

"Another of our problems is raising too much of the same product," he said, adding that "that doesn't mean everyone should go out and raise broccoli."

In summation, Frederick said that "the pendulum swings" in any economic situation and "when its good again, don't let anyone tell you it will always be good."

BUSINESS Digest

WEDNESDAY, FEBRUARY 19, 1986

The Economy

The Farm Credit System had a 1985 loss of \$2.69 billion, its biggest ever and the first since the Depression. The loss is on target with earlier predictions and is a sign of the economic crisis gripping American agriculture. Several economists are predicting even bigger losses for the farm lender in 1986. [Page D1.]

Farm Loan System's Huge Loss

Bleak Report For '85 Shows Crisis Persists

By KEITH SCHNEIDER

Special to The New York Times

WASHINGTON, Feb. 18 — The Farm Credit System, the nation's largest agricultural lender, today announced a net loss of \$2.69 billion for 1985, by far the biggest in the system's 70-year history.

The loss, which was as predicted, is one more sign that the economic crisis gripping much of American farming is not abating, agricultural economists said.

Several of them, including Edwin Jaenke, who headed the Farm Credit Administration in 1969-75, predicted that this year's loss could exceed \$3.5 billion if the farm economy does not improve. Such a drain would exhaust the system's reserves of \$3.4 billion, the economists said, and without Federal help the system would collapse.

John Brake, professor of agricultural finance at Cornell University, said: "It's difficult to make forecasts for this year and 1987, but we expect 1986 is going to be a poorer year for farmers than was 1985. My conclusion is they are likely to lose more in 1986

Rest of This Year Unclear

But leaders of the Farm Credit System said it is still too early to determine if the system will show a net loss at the end of 1986. "Some of these projections are a little more pessimistic than ours," said James A. Roll, senior vice president for the Federal Farm Credit Banks Funding Corporation, which issues the system's securities. "We don't know yet if we'll need Federal assistance this year. It all depends on what the agricultural economy does."

Last fall Farm Credit System officials told the Reagan Administration and Congress that financial distress in the farm sector could cause a loss of between \$2 billion and \$3 billion for 1985 and that the system might show losses for 1986 and 1987. Losses result when farmers are unable to keep up payments on their loans.

Congress reacted by passing legislation in December to reorganize the system's regulatory agency, the Farm Credit Administration. Also a new unit, the Capital Corporation, was chartered to enable the Secretary of the Treasury to make Government funds available, with the approval of Congress, to aid the system.

The farmer-owned Farm Credit System has 12 districts nationwide,

Farm Loan System's Huge Loss

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with 37 primary banks and roughly 500 lending associations. Like other major farm lenders, the system has been buffeted by factors that have hurt farm income: declining exports, price-depressing crop surpluses and plummeting land prices.

The report issued by the system today shows that its portfolio of loans shrank from \$78.5 billion on Dec. 31, 1984, to \$66.6 billion one year later. Roughly \$59 billion is owed by individual farmers, the largest single share of the nation's \$209 billion farm debt. The remaining \$7.6 billion has been lent to farm cooperatives and other farm-related businesses.

The system had operated in the black for half a century, said Mr. Roll, with the last loss being in the Depression days of the 1930's.

Today's report is the first comprehensive assessment of the performance of all the banks, associations and service institutions of the Farm Credit System. The financial statements were audited by the accounting firm of Price Waterhouse.

Along with the huge 1985 loss, the report shows that the system holds \$5.3 billion in loans on which interest and principal is no longer being paid. And the system's total capital declined to \$8.4 billion from \$11.8 billion a year earlier.

Most of the system's losses have occurred at banks in the South, the Middle West and the Northwest. Banks in Spokane, Wash., and in Omaha sought help last year from financially healthy banks in Texas, Massachusetts and Maryland.